

## **TABLE OF CONTENTS**

	PAGE
<b>EXECUTIVE SUMMARY</b> <a href="#">Click Here To View</a> .....	i
<b>INTRODUCTION</b> .....	<b>1</b>
Department Mission .....	1
Operating Budget .....	2
Capital Budget .....	3
Organization .....	3
<b>SCOPE AND METHODOLOGY</b> .....	<b>5</b>
<b>FINDING I</b>	
<b>THE LIBRARY DEPARTMENT NEEDS TO DEVELOP AN INVENTORY REPORTING SYSTEM THAT PROVIDES ACCURATE INFORMATION REGARDING THE STATUS OF ITS COLLECTION</b> .....	<b>6</b>
Library Management Needs Reliable Inventory Information.....	7
Library Management Lacks Reliable Inventory Information .....	9
The Library Has Purchased A New Inventory System .....	13
Other Improvements Are Needed To Provide Better Inventory Information .....	15
<b>CONCLUSION</b> .....	<b>19</b>
<b>RECOMMENDATIONS</b> .....	<b>19</b>
<b>FINDING II</b>	
<b>THE LIBRARY NEEDS TO EXPAND ITS USE OF THEFT DETECTION SYSTEMS IN ORDER TO PREVENT THE THEFT OF LIBRARY MATERIALS</b> .....	<b>21</b>
Book Losses Plague All Libraries .....	21
Theft Detection Systems Are Effective Controls .....	22

Limited Use Of Theft Detection Devices .....	23
Library Management Has Placed A Higher Priority On Other Budgetary Items .....	24
The Library Does Not Have Reliable Data On The Amount Of Materials It Loses To Patron Theft .....	25
The Library's Exposure To Theft Appears To Be Substantial .....	26
Expansion Of The Library's Theft Detection System Appears To Be Cost Justified.....	27
<b>CONCLUSION .....</b>	<b>30</b>
<b>RECOMMENDATIONS .....</b>	<b>31</b>
<b>FINDING III</b>	
<b>THE LIBRARY IS NOT IN COMPLIANCE WITH CITY CODE REQUIREMENTS REGARDING THE DISPOSAL OF SURPLUS LIBRARY MATERIALS .....</b>	<b>32</b>
The Library Disposes Of Surplus Materials .....	32
City Code Specifies The Process For Disposal Of Surplus Library Materials .....	33
The Library Is Not Following The Procedures Prescribed By The City Code .....	34
<b>CONCLUSION .....</b>	<b>35</b>
<b>RECOMMENDATIONS .....</b>	<b>35</b>
<b>FINDING IV</b>	
<b>THE LIBRARY NEEDS ADDITIONAL INFORMATION AND POLICIES REGARDING OVERDUE MATERIALS, FINES AND CHARGES .....</b>	<b>37</b>
Library Policies On Overdue Materials .....	37
Procedures For Pursing Overdue Accounts .....	38
The Library Needs To Improve Its Collection Efforts .....	39
The Library Does Not Contact Patrons In A Timely Manner .....	39

Collection Efforts Are Limited .....	41
The Library Lacks A Formal Policy For Writing Off Clearly Uncollectible Accounts .....	43
The Library Lacks A Formal Policy Regarding When To Allow Patrons With Overdue Materials To Check Out Additional Materials .....	44
As Of April 1989, Library Patrons Owed \$1,062,960 For Overdue Materials And Delinquent Fines And Charges .....	44
The Library Needs To Improve Its Information Base For Patrons Owing Material, Fines And Charges .....	46
<b>CONCLUSION .....</b>	<b>48</b>
<b>RECOMMENDATIONS .....</b>	<b>48</b>
<b>FINDING V</b>	
<b>THE LIBRARY DEPARTMENT'S FINANCIAL INFORMATION IS INADEQUATE AND UNRELIABLE AND IMPAIRS MANAGEMENT'S ABILITY TO MAKE SOUND BUDGETARY AND DAY-TO-DAY OPERATING DECISIONS .....</b>	<b>51</b>
The Library Needs Strong Budget And Accounting Controls .....	52
The Library Lacks A Strong Internal Control Environment.....	54
Over-Encumbrance Of The Budgeted Amounts That Are The Foundation Of The Library's Collection Development Process .....	62
Planning And Making Day-To-Day Operating Decisions Based On Inaccurate And Unreliable Financial Reports .....	65
<b>CONCLUSION .....</b>	<b>72</b>
<b>RECOMMENDATIONS .....</b>	<b>73</b>

**ADMINISTRATION’S RESPONSE** [Click Here To View](#) ..... 78

**APPENDIX A** [Click Here To View](#)  
**DEFINITIONS OF PRIORITY 1, 2, AND 3**  
**AUDIT RECOMMENDATIONS** .....A-1

**APPENDIX B** [Click Here To View](#)  
**RECONCILIATION OF INNOVACQ TO GAS**  
**FOR THE FISCAL YEAR ENDING JUNE 30, 1989** .....B-1

# **INTRODUCTION**

The San Jose Public Library (Library) was formed by City Council Resolution on April 30, 1880. Since then, the Library has grown to a system which includes a 113,800 square foot main facility, seventeen branches and a bookmobile that provides service to over 50 locations.

## **Department Mission**

The mission of the Library Department is:

*“To meet the intellectual, cultural, and recreational needs of each person in the community by providing and making accessible a representative collection of materials for education, enrichment, and entertainment.”*

To achieve its mission, the Library acquires, organizes and makes available materials of interest to the public. These materials include books, periodicals, pamphlets, documents, microforms, tapes, recordings, films, art prints and other such items that record the thought, expression and opinion of mankind. The Library offers the public the following services:

- Reference service, inter-library loans, readers’ assistance, circulation service, and programs for citizens of all ages;
- Collection of books, records, audio cassettes and other materials for circulation;
- Periodical collection;
- Foreign language collection; and
- Programs for children, young adults and adults.

The Library also offers a number of other services such as the Silicon Valley Information Center, the Bookmobile, the Biblioteca Latino Americana Branch, on-line computer reference services, the Media Center, a career file, public meeting rooms, and extensive local history in the California Room.

The Library enhances the services and materials available to patrons through an inter-library loan system called the South Bay Cooperative Library System. This system links the resources of all the public libraries in Santa Clara and San Benito Counties. The Library also participates in the SouthNet Reference Center which searches public, academic and corporate libraries and electronic databases for information on a local, regional and national level.

### **Operating Budget**

The Library's 1989-90 adopted operating budget was \$12,801,477. The Library's budget is allocated to its four programs as follows:

**TABLE I**  
**SUMMARY OF THE LIBRARY'S**  
**1989-90 OPERATING BUDGET BY PROGRAM**

<b><u>Program</u></b>	<b><u>Personal Services</u></b>	<b><u>Non-Personal</u></b>	<b><u>Total</u></b>
Management and Administration	\$811,967	\$74,927	\$886,894
Support Services	1,301,313	252,351	1,553,664
Main Library Services	4,181,195	378,953	4,560,148
Branch Library Services	<u>5,506,296</u>	<u>294,475</u>	<u>5,800,771</u>
<b>TOTAL</b>	<b><u>\$11,800,771</u></b>	<b><u>\$1,000,706</u></b>	<b><u>\$12,801,477</u></b>

## Capital Budget

For fiscal year 1989-90, the Library was budgeted \$3,340,600 for capital projects. These funds were to be used to pay for books and other library materials, building improvements and other capital projects. The Library's budget is allocated to its projects as follows:

**TABLE II**  
**THE LIBRARY'S 1989-90 CAPITAL BUDGET**

<b><u>Project</u></b>	<b><u>Budget</u></b>
Acquisition of books	\$1,284,000
Branch acquisitions, expansions, improvements and reserves	1,060,000
Integrated On-line System and debt service	520,000
Acquisition of non-book materials	215,000
Transfers to the General Fund	120,600
Book rentals	90,000
Infrastructure Management System	37,000
Automation projects	10,000
Budget Office capital program staff	<u>4,000</u>
TOTAL	<u>\$3,340,600</u>

## Organization

The Library is organized into four organization units: 1) Main Library and Support Services, 2) Administrative Services, 3) Personnel Services, and 4) Branch Library Services. The Library's organization chart and a brief description of the units' responsibilities are shown on the following page:

**CITY OF SAN JOSE**  
Library Department

Function and Organization Chart  
Date: September, 1989

BUDGET UNIT	BUDGETED POSITIONS
Management and Administrative Services	18.1
Support Services	30.6
Main Library Services	110.0
Branch Library Services	155.1
<b>TOTAL</b>	<b>313.8</b>

LIBRARY DEPARTMENT	
<ul style="list-style-type: none"> <li>• Directed the implementation of work projects, work programs and Departmental objectives</li> <li>• Provide planning and evaluation of library services in relation to established goals</li> <li>• Provide administration of the operating budget, capital improvement projects, the Department's affirmation action program and cable TV complaints</li> <li>• Coordinate information exchange with other libraries and agencies</li> <li>• Maintain liaison with the California State Library</li> <li>• Initiate grant proposals</li> <li>• Coordinate programs for children, young adults, and adults for the Main Library and branches</li> </ul>	1.0 City Librarian

1.0 Executive Secretary

LIBRARY COMMISSION
9 Members

CLERICAL SUPPORT
<ul style="list-style-type: none"> <li>• Provide administrative and clerical support for Department, including mail sorting, phone answering, typing, filing and word processing</li> <li>• Provide staff support for the San Jose Library Commission</li> </ul>
1.0 Typist Clerk II 1.0 Senior Word/Micro Processor Operator 0.7 Typist Clerk II P/T 1.0 Library Clerk

MAIN LIBRARY AND SUPPORT SERVICES
<ul style="list-style-type: none"> <li>• Provide circulation service, audio-visual materials, reference service, inter-library loans, readers' assistance and library programs at the Main Library to citizens of all ages</li> <li>• Provide for the acquisition, processing and distribution of library materials</li> <li>• Provide general circulation services and operation of the Automated Circulation System</li> <li>• Manage automated services and training</li> </ul>
1.0 Assistant City Librarian

ADMINISTRATIVE SERVICES
<ul style="list-style-type: none"> <li>• Provide fiscal, analytical and business services</li> <li>• Coordinate training and staff development functions for the department</li> <li>• Provide security of Main Library and staff</li> <li>• Manage system capital planning projects</li> </ul>
1.0 Deputy City Librarian

PERSONNEL SERVICES
<ul style="list-style-type: none"> <li>• Keep staff vacancies at a minimum</li> <li>• Interview job applicants</li> <li>• Maintain position control file</li> <li>• Provide interpretation of Civil Service rules</li> <li>• Perform job evaluations</li> <li>• Maintain department eligible list</li> </ul>
1.0 Staff Analyst II 1.0 Library Clerk

BRANCH LIBRARY SERVICES
<ul style="list-style-type: none"> <li>• Provide circulation service, reference service, inter-library loans, readers' assistance and library programs at 17 branches and one bookmobile to citizens of all ages</li> <li>• Make materials selection for handicapped and homebound</li> <li>• Cooperate with schools, community organizations and other social agencies for maximum use of library services and facilities</li> </ul>
2.0 Supervising Librarian

MAIN LIBRARY SERVICES
SUPPORT SERVICES
AUTOMATED SERVICES

ADMINISTRATIVE SERVICES
BRANCH LIBRARY SERVICES



## SCOPE AND METHODOLOGY

We reviewed the Library's financial and inventory management activities to evaluate the adequacy of controls over the following processes:

- inventory management
- theft of library materials
- disposal of surplus property
- delinquencies
- acquisition fund accounting
- revenue collections and deposits
- budget planning and monitoring
- financial reporting

To assess the adequacy of the Library's internal controls, we interviewed staff and documented the Library's system of control. We analyzed the system of control to determine if it sufficiently limited the potential risks associated with the above processes. We then tested controls to determine if they were functioning properly.

We employed a variety of auditing techniques to test existing controls. Specifically, we sampled and analyzed delinquency reports, examined financial transactions, observed the Library's adherence to established procedures, interviewed staff and reviewed financial and inventory management reports for accuracy and completeness. In addition, we reviewed professional and authoritative literature and interviewed officials from other libraries.

## **FINDING I**

### **THE LIBRARY DEPARTMENT NEEDS TO DEVELOP AN INVENTORY REPORTING SYSTEM THAT PROVIDES ACCURATE INFORMATION REGARDING THE STATUS OF ITS COLLECTION**

Library management needs adequate inventory information in order to:

- Maintain accountability for the City assets entrusted to it;
- Evaluate patron usage of its collection;
- Evaluate whether it is meeting its goal of keeping its collection current and in good condition; and
- Assess the City's progress toward meeting its Horizon 2000 Plan goal of 2.82 books per capita.

However, our review of the Library Department's computerized circulation system revealed that it is not adequate to satisfy the above needs. Specifically, we identified that:

- From 1984-85 through 1987-88, the Library's reported inventory of cataloged items declined by 276,737 items in spite of 384,162 items being purchased and cataloged;
- The Library did not document why it deleted 660,899 inventory items from its computer system from 1984-85 through 1987-88;
- The Library has no means of identifying or quantifying the number of items that patrons lose or steal; and
- The Library overstates its inventory totals by the number of items that are "Lost By Patron".

In 1988, the Library contracted to acquire a new \$1.5 million library circulation system. However, as of June 1990, the Library's new system is

not fully functional. As a result, Library management has received very little in the way of inventory reports since April 1989. According to Library management, its new circulation system will be able to produce a variety of inventory reports sometime in 1991. By developing inventory reports that 1) track changes in inventory levels, 2) identify the number of and reasons for inventory deletions, and 3) identify inactive inventory items, Library management will be better able to monitor its progress toward achieving its collection goals and have added assurance that its reported inventory levels are reasonably accurate.

#### Library Management Needs Reliable Inventory Information

Library management needs adequate inventory information in order to:

- Maintain accountability for the City assets entrusted to it;
- Evaluate patron usage of its collection;
- Evaluate whether it is meeting its goals of keeping its collection current and in good condition; and
- Assess the City's progress toward meeting its Horizon 2000 Plan goal of 2.82 books per capita.

In order for the Library to maintain accountability for the City assets entrusted to it, Library management should be able to account for the number of items that are available to its patrons at various locations. In addition, the Library should be able to account for the number of items added to or removed from its collection and the reasons for deleting items from its computerized inventory records. The Library also needs accurate and reliable information about its inventory to be able to plan for program

needs and measure program performance. For example, one measure of the Library's operating effectiveness is the circulation rate, or patron usage, of its collection. However, such circulation rates can only be produced if reliable inventory totals are available.

Further, Library management needs accurate inventory information to evaluate whether it is meeting its goal of keeping its collection current and in good condition. The Library "weeds", or discards, part of its collection annually. As a result, San Jose Library officials estimate that overall librarians weed 2 to 2.5 percent of their collections each year. However, without accurate information on the number of items weeded and deleted from its inventory records, Library management cannot know if librarians are appropriately weeding the collection or if the general level of weeding is in accordance with management's policy. Moreover, without accurate inventory information, Library management cannot account for the number of items it discarded as surplus property and gave to the Friends of the Library or to General Services. (See FINDING III for a further discussion of this issue.)

Finally, the Library uses the Horizon 2000 Plan's service level goal of providing 2.82 books per capita to determine its collection needs and prepare its budget. Without reliable inventory totals, the Library and the City Council cannot accurately assess the City's progress toward meeting that goal.

## **Library Management Lacks Reliable Inventory Information**

Our review of the Library Department's computerized circulation system revealed that it is not adequate to satisfy the above needs.

Specifically, we identified that:

- From 1984-85 through 1987-88, the Library's reported inventory of cataloged items declined by 276,737 items in spite of 384,162 items being purchased and cataloged;
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- The Library overstates its inventory totals by the number of items that are "Lost By Patron".

*From 1984-85 Through 1987-88, The Library's Reported Inventory Of Cataloged Items Declined By 276,737 Items In Spite Of 384,162 Items Being Purchased And Cataloged*

Our examination of the inventory reports that the Library's circulation system generated between 1984 and 1988 revealed dramatic declines in reported inventories. Specifically, over that four year period, the Library's total reported inventory of cataloged items declined from 1,351,448 items to 1,074,711, in spite of the fact that the Library purchased and cataloged 384,162 items during that same period.

**TABLE III**  
**SUMMARY OF THE LIBRARY'S REPORTED**  
**INVENTORY LEVELS AND ANNUAL ITEM PURCHASES**  
**FROM 1984-85 THROUGH 1987-88**  
**(CATALOGED ITEMS ONLY)**

<b><u>Fiscal</u></b> <b><u>Year</u></b>	<b><u>Beginning</u></b> <b><u>Inventory</u></b>	<b><u>Annual</u></b> <b><u>Purchases</u></b>	<b><u>Calculated</u></b> <b><u>Ending</u></b> <b><u>Inventory</u></b>	<b><u>Reported</u></b> <b><u>Ending</u></b> <b><u>Inventory</u></b>	<b><u>Cumulative</u></b> <b><u>Estimated</u></b> <b><u>Deletions</u></b>
1984-85	1,351,448*	81,206	1,432,654	1,248,808	(183,846)
1985-86	1,432,654	94,106	1,526,760	1,248,591	(278,169)
1986-87	1,526,760	103,857	1,630,617	1,181,011	(449,606)
1987-88	1,630,617	<u>104,993</u>	1,735,610	1,074,711	(660,899)
Total item purchases...		<u>384,162</u>			

\* Reported inventory as of July 1984.

*The Library Did Not Document Why It Deleted  
660,899 Inventory Items From Its Computer System  
From 1984-85 Through 1987-88*

When we questioned Library officials about the inventory declines shown above in TABLE III, they told us that the declines were the result of item deletions from its computer system. The Library deletes inventory items from its computer system for a variety of reasons. To maintain accountability for City assets, the Library should be able to account for the items it deletes from its inventory. To do this, the Library needs information on the number of items deleted and the reasons for these deletions. This information is necessary to 1) explain differences in inventory totals from year to year, 2) determine if controls are adequate to prevent theft, and 3) determine if the library is meeting its weeding goals.

Our review found, however, that the Library does not document why items are deleted from inventory files. Thus, the Library cannot explain why it deleted 660,899 item records from its inventory files from 1984-85 through 1987-88. According to Library staff, these 660,899 items were either weeded or lost, or were the result of computer record changes. However, none of the Library's management reports explained why these items were deleted.

It should be noted, that in addition to the 660,899 cataloged items noted above, the Library also deleted an unknown but substantial number of other items from its computerized inventory system. Specifically, certain items such as uncataloged paperbacks were excluded from permanent inventory. Instead, these items were designated as "ephemeral" or temporary items. The Library included these ephemeral items in its inventory records only when a patron had them checked out and for a short time after the patron returned them. When the Library's old inventory system reached its full data storage capacity, the Library would simply purge the records for large numbers of ephemeral items from its inventory. For example, in March 1989, the Library purged approximately 129,000 ephemeral items from its inventory system. Patrons had previously checked these 129,000 items out, but they were not checked out at the time the Library purged its system of the items.

*The Library Has No Means Of Identifying Or Quantifying  
The Number Of Items That Patrons Lose Or Steal*

Our review also found that the Library does not account for the number of items that patrons steal from the collection. The Library identifies current inventory items which are missing from the collection as “Lost From Stacks” in the circulation system. Lost From Stacks items are those items which librarians cannot find on the shelves. After six months, if these Lost From Stacks items are still missing, the Library deletes them from its computerized circulation system. For example, in April 1989, the circulation system showed 8,892 items as Lost From Stacks. Of these items, 2,624 had been classified as lost for more than six months. It is reasonable to assume that a significant number of these items were never found, and the Library deleted them from its computerized inventory. However, the Library does not count or record the number of Lost From Stacks items that it actually deletes from its system. As a result, Library management can only guess at the number of items it loses to patron theft and therefore cannot evaluate the extent of its book theft problem or assess the effectiveness of its theft protection measures. (See FINDING II for a further discussion of this issue.)

*The Library Overstates Its  
Inventory Totals By The Number Of  
Items That Are “Lost By Patron”*

Our review also found that large numbers of materials which are classified as “Lost By Patron” overstate the Library’s actual inventory totals. Specifically, the Library includes in its computerized inventory item count those items that patrons report as being lost. The Library’s policy is to count



these Lost By Patron items in its current inventory for at least four years after the patron reports that he or she lost the item. This policy seems inappropriate for two reasons. First, it is very likely that these Lost By Patron items will never be returned. Secondly, this policy is inconsistent with the Library's policy regarding Lost From Stacks items. Specifically, the Library deletes Lost From Stacks items if they are not found after six months. In our opinion, the policy of continuing to count Lost By Patron items as current inventory overstates the Library's inventory totals and reduces the accuracy of its circulation reports. For example, in March 1989, the Library's old circulation inventory system included 76,000 items which had been classified as Lost By Patron for more than six months.

### **The Library Has Purchased A New Inventory System**

The Library has purchased a new computer system which will, in part, address some of its inventory accounting problems. In June 1988, the City Council approved an Acquisition Agreement with CLSI, Inc., to purchase a new automated integrated library computer system for a total of \$1.5 million. CLSI, Inc., of Newtonville, Massachusetts, has installed systems in nearly 1,300 libraries throughout the world in the past fifteen years. The new system includes hardware and software for database management, cataloging, circulation control and an on-line public access catalog. The Library installed the new system in May 1989. However, after a year of operation, the system is not fully functional. Currently, the Library's computer staff is working with the vendor to identify and document system problems and to complete system implementation.

The Library's new circulation system has a much larger file capacity. This enlarged capacity allows the Library to assign permanent records for all inventory items, including ephemeral items (see Page 11). As such, the Library will not have to purge items from its inventory system in order to create additional storage capacity. According to Library staff, the new system's inventory files currently include all of the ephemeral items that patrons have checked out since April 1989. As a result, the new circulation system now lists more than 1.5 million items in the Library's inventory compared to approximately 1.3 million as of April 1989 -- an increase of more than 15 percent. Furthermore, as patrons check out more ephemeral items, future reported inventory totals should come closer to approximating the actual number of library materials on the shelves.

However, since it installed the new CLSI circulation system in May 1989, Library management has received very little in the way of management reports on its inventory. In fact, as of June 1990, Library management has not received even the most basic inventory reports for over a year. In addition, the CLSI circulation system software needed to provide management with the type of inventory reports it used to receive will not be available until 1991. As a result, as of June 1990, Library management had less information with which to make inventory decisions than it had with its old circulation system.

## **Other Improvements Are Needed To Provide Better Inventory Information**

Although the Library's new circulation system will provide more complete information on the status of ephemeral items, the Library needs to develop additional report writing capabilities in order to provide greater collection accountability and performance measurement. Specifically, the Library's new circulation system should provide Library management with inventory reports that:

- Track changes in inventory levels;
- Identify the number of and reasons for inventory deletions; and
- Identify inactive inventory items.

### **Reports Should Track Changes In Inventory Levels**

Under its old circulation system, Library management received a "Monthly Service Report" which showed the number of inventory items at each branch library. Even though the reported inventory numbers on the Monthly Service Reports were not entirely accurate, Library management could use them for such things as determining priorities for resource allocations and determining shelving requirements. In addition, Library management also received monthly circulation ratio reports that showed the percentage of library materials in circulation at each branch library by subject area. The Library used these circulation ratios to assess patron demand for different types of materials and direct attention to those areas that appeared to need improvement. These Monthly Service Reports and circulation ratio reports have not been available to Library management since it installed its new circulation system in May 1989.

In our opinion, Library management not only needs the inventory reports that its old circulation system produced, but it also needs reports that identify inventory trends such as what effect additions and deletions had on the previously reported inventory balance. According to Library personnel, when the report writing software component of the Library's new circulation system is installed, Library staff will be able to prepare a wide variety of inventory reports. In our opinion, the Library should use the report writing software component to not only prepare inventory status reports but also reports that show cumulative inventory changes, including the number of items added, lost and weeded. This information will allow Library management to identify inventory trends, evaluate compliance with Library policies and assess progress toward collection goals.

*Inventory Reports Should Identify  
The Number Of And Reasons For Inventory Deletions*

As was noted earlier, the Library's old circulation system did not generate detailed management reports that identified the number of and associated cause for item deletions. If it had this information, Library management could use it to assess 1) its patron theft problems, 2) the effectiveness of its theft protection measures (see FINDING II), and 3) if staff is properly deleting lost items from the Library's circulation system.

According to Library staff, because the Library's new circulation system is an on-line computerized system, a software change may be required to tally and categorize the number of deleted items. Absent such a software change, it may be necessary for librarians to manually tally and categorize the number of deleted items.

*Inventory Reports Should Be Used  
To Identify Inactive Inventory Items*

Normally, a physical inventory ensures that reported and actual inventory levels are in agreement. However, because it is not practical to do so, most libraries, including the San Jose Public Library, do not take physical inventories of their collections. The impracticality of a physical inventory notwithstanding, the Library needs to ensure that its reported inventory approximates its actual inventory.

About the only means the Library has to identify missing books is when patrons request a book that should be on the shelf but is not. These requests generate a “Lost From Shelf” report that can eventually result in the Library deleting items from inventory. Some libraries use an inactive inventory report to alert librarians to library materials which have not circulated recently. Typically, these are items which are lost, stolen, or need to be discarded because of poor condition or obsolescence.

In 1988, the Library used its old circulation system to produce a series of inactive inventory reports. The Library used these reports to identify items it did not want to include in inventory when it converted to its new computerized inventory system. The Library produced this report by programming its inventory system to identify those items that had not circulated in three years. Using this report, librarians went directly to specific shelf locations to look for those books identified as non-circulating. If the librarians could not locate the book, they tagged the inventory record as Lost From Stacks. If the librarians could not locate the Lost From Stacks items after additional searches, the Library deleted the missing items from

its inventory. Thus, the inactive inventory report provided a practical method for the Library to identify missing or unused items and bring its inventory files into agreement with actual items on hand. Unfortunately, the Library's new circulation system does not produce an inactive inventory report. Thus, the Library lacks a reliable means to verify that its reported inventory approximates its actual inventory.

According to Library management, an accurate computerized inventory is essential if the Library's proposed on-line public access catalog is to work smoothly. As a result, the Library must develop a practical way to ensure that its computerized inventory is reasonably accurate. A practical means to do this would be for the Library's new circulation system to produce the same kind of inactive inventory report its old system produced and have libraries follow up on books identified as non-circulating. Library officials stated that they plan to produce such a report once its circulation system is fully functional. In our opinion, running an inactive inventory report on a regular basis would provide Library management with a practical means to 1) detect losses of library materials in a timely manner, 2) direct librarians' attention to library materials items that may need to be discarded, and 3) verify that reported inventory levels are reasonably accurate.

## **CONCLUSION**

Our review revealed that the Library lacks accurate inventory information. From 1984-85 through 1987-88, the Library's reported inventory of cataloged items declined by 276,737 items in spite of 384,162 items being purchased and cataloged. In addition, the Library did not document why it deleted 660,899 inventory items from its computer system from 1984-85 through 1987-88. Further, the Library's inventory totals included items which were known to be lost. In May 1989, the Library installed a new \$1.5 million library circulation system. However, because the new system is not fully functional, Library management has not received even the most basic inventory reports since April 1989. By improving the report writing capabilities of its new system, Library management can monitor its progress toward achieving its goals and have added assurance that its reported inventory levels are reasonably accurate.

## **RECOMMENDATIONS**

We recommend that the Library:

### **Recommendation #1:**

Develop circulation system reports which provide management with monthly and annual reports which show:

- Total number of inventory items,
- Number of items added,
- Number of items lost,
- Number of items discarded.

The Library should also develop and implement policies and procedures for deleting "Lost By Patron" items. (Priority 3)

**Recommendation #2:**

Develop a procedure to periodically identify and report the number of items deleted from its circulation system and the reasons for the deletions.

(Priority 2)

**Recommendation #3:**

Produce a computerized listing of inactive inventory items on a regular basis for subsequent follow-up, resolution and reporting.

(Priority 3)



## **FINDING II**

### **THE LIBRARY NEEDS TO EXPAND ITS USE OF THEFT DETECTION SYSTEMS IN ORDER TO PREVENT THE THEFT OF LIBRARY MATERIALS**

The problem of patrons stealing books plagues all public libraries. Authoritative literature recommends the use of theft detection systems in order to deter and detect the theft of library materials. The San Jose Library Department has installed theft detection systems at two of its branch libraries and to a limited extent at its Main Library. According to Library management, funding constraints and emphasis on other budget priorities have hindered the purchase of theft detection systems for other branch libraries and the expansion of the Main Library's detection system. Our review revealed that the Library does not have reliable data on the amount of materials it loses to patron theft. However, even assuming conservative theft loss rates, costs per book and payback periods, we estimate that it would be cost effective for the Library to expand the use of its theft detection system at the Main Library and install similar systems in at least four additional branch libraries.

#### **Book Losses Plague All Libraries**

Public libraries across the nation suffer losses due to patron theft. From 2 to 30 percent of some collections disappear every year. It is estimated that about 5 percent of all new books disappear from library shelves within six months of purchase. The loss of library materials puts additional strain on already limited library resources. Furthermore, thefts of

library materials directly affect a library's ability to provide information to its patrons.

The San Jose Public Library has more than 1.5 million volumes in its book collection with an estimated replacement value of \$30 million. This collection includes a wide variety of popular books, reference books and periodicals. The public has direct access to most of these materials. As a result, the Library's collection of materials is by definition subject to theft.

### **Theft Detection Systems Are Effective Controls**

Modern theft detection systems have proven to be an effective means to prevent the loss of library materials. For example, the loss rate at one library was cut from 25 percent per year to 0.5 percent per year when a theft detection system was installed. Furthermore, professional library journal articles point out that electronic security systems are the most cost effective controls against book theft available to libraries. Payback on theft detection systems can be as short as one to two years.

Besides detecting theft, theft detection systems also have a deterrent effect because they provide a visible reminder to patrons that the library has the means to detect book theft. The City's Santa Teresa Branch Library has a theft detection system. According to the Senior Librarian at that branch:

*"I believe the greatest value of having the book detection system is that it deters theft of materials. For instance, Santa Teresa has 7 complete sets of reference encyclopedias. In my experience at other branches, these volumes begin disappearing almost as soon as they go out on the shelf. I expect that if you surveyed other branches you would find that to be the case and I attribute Santa Teresa's success at retaining reference encyclopedias to the presence of the book detection system. Without it and with the heavy usage the collection receives, I*

*would expect a correspondingly high loss rate. Such is not the case and this helps to counter-balance the unpleasantness of dealing with instances of attempted theft of materials.”*

### **Limited Use Of Theft Detection Devices**

Library management has established a variety of controls to minimize the theft of library materials. These security measures include:

- Monitoring public areas;
- Limiting access to non-public areas;
- Building security;
- Posting adequate signage; and
- Establishing staff procedures for handling suspected library material theft in outlets with or without theft detection systems.

In addition, the Library has installed theft detection systems at two branch libraries (Educational Park and Santa Teresa) and to a limited extent at the Main Library. The systems rely on magnetic tape to set off a gate alarm if materials pass through the gate without being properly desensitized during the check-out process.

As a result, theft protection systems protect only a small percentage of the Library’s collection. Specifically, 15 out of 17 branch libraries do not have theft detection systems, and only non-circulating items (periodicals and reference materials) are protected at the Main Library. These items represent less than 15 percent of the Main Library’s book collection.

## **Library Management Has Placed A Higher Priority On Other Budgetary Items**

Although library theft detection systems are not typically expensive, cost apparently has prevented the purchase of additional theft detection systems. According to Library management, capital funding plans for theft detection systems have dropped off the Library's Capital Budget several times due to higher funding priorities.

Library management has identified "taping" the remainder of its collection at the Main Library as a higher budgetary priority than installing theft detection systems at additional branches. This practice seems consistent with what other California libraries are doing to protect their collections. The majority of other libraries we surveyed, at a minimum, had fully operational theft detection systems at their main libraries.

It should be noted that the Library prepared a General Fund budget augmentation request of \$48,000 for 1990-91 to protect the remainder of its collection at the Main Library. However, Library management placed a lower priority on expanding its theft detection system at the Main Library than it did other competing General Fund budgetary concerns, such as staffing for its branches. As a result, the \$48,000 General Fund augmentation request (\$32,000 for "tapes" and \$16,000 in contractual services to insert the tapes) was dropped early in the budget process.

It should be noted also that the City of San Jose's 1990-95 Five Year Capital Improvement Plan includes \$44,000 in 1991-92 to upgrade the Main Library's book detection system and \$209,000 in 1993-94 and 1994-95 to install book detection systems at various other branch libraries.

In our opinion, the City Manager's Office should assign a high priority to the installation of theft detection systems in order to ensure that these items are ultimately included in the adopted Capital Budget.

**The Library Does Not Have Reliable  
Data On The Amount Of Materials It  
Loses To Patron Theft**

The Library's circulation system produces monthly reports that show the number of items categorized as "Lost From Stacks". These usually are items that 1) patrons requested, 2) librarians could not locate, and 3) were not identified in the Library's circulation system as being checked out to another patron. According to the Library's procedures, after six months librarians are to search the stacks one more time for Lost From Stacks items. If the librarian cannot locate a Lost From Stacks item during this follow-up search, the Library deletes the item from its circulation system.

Circulation system reports show that over a one-year period, librarians tagged an average of 580 items as being Lost From Stacks each month. These items may have been mis-shelved, off the shelf, incorrectly identified, or stolen. However, the Library does not keep a record of the number that were deleted after the follow-up search. While many of these items may, in fact, have been stolen, there is no way to even approximate the exact number.

Similarly, we found that a significant number of library materials were purged from the Library's inventory system in early 1988. At that time, the Library was running inactive (books not checked out for long periods of time) inventory reports and purging large numbers of missing

items preparatory to changing to its new materials circulation system. Many of these purged items had not been previously reported as lost. By 1988, the number of missing items had accumulated to a significant number. For example, in February 1988, the Library's circulation system listed a total of 54,281 items Lost From Stacks (4.1 percent of reported inventory), of which 48,054 items had been lost for more than six months. As is the case with other Lost From Stacks deletions, the Library did not identify how many of these 48,054 items were deleted from the circulation system. Given this lack of information, it is not possible to estimate how many items are stolen from San Jose's libraries during any period of time.

### **The Library's Exposure To Theft Appears To Be Substantial**

Although the Library does not compile totals for the number of books stolen from its collection, our review indicates that the Library may, in fact, be losing significant numbers of items to patron theft. For example:

- In 1989, the Main Library's theft detection system stopped 1,300 to 1,400 patrons from exiting the Library with about \$9,000 worth of materials they had not checked out. This statistic is even more impressive when you consider that less than 15 percent of the Main Library's materials are under the protection of the theft detection system.
- In April 1989 the Library's circulation system showed 8,892 items as Lost From Stacks with 2,624 of those items lost for more than six months.
- It took the Library over a year to put together the Silicon Valley Information Center (S.V.I.C.) at the Main Library. Because the S.V.I.C. materials are reference items, they cannot be checked out to patrons and they are under the protection of the Main Library's theft detection system. The day after the S.V.I.C. was opened to the public,

the theft detection system started stopping patrons who were trying to exit with S.V.I.C. materials.

- Nationwide, libraries are losing from 2 to 30 percent of some collections to patron theft.

Based on the above information, it appears quite reasonable to assume that the Library is losing a substantial, albeit indeterminate, number of items to patron theft.

### **Expansion Of The Library's Theft Detection System Appears To Be Cost Justified**

The San Jose Public Library system consists of a Main Library, seventeen branch libraries and a bookmobile. According to Library officials, the Library system has a book inventory of about 1.5 million volumes with a replacement value of \$30 million. While the Library does not have reliable data on the number of items it loses to patron theft, it does appear that the threat of theft poses a substantial monetary risk for the Library. For example, using these Library estimates, even a conservative loss rate of 1 percent equates to about \$300,000 per year in book losses.

Of the Main Library and seventeen branch libraries, theft detection systems are in place at two branches (Educational Park and Santa Teresa) and for only reference materials and periodicals at the Main Library. As part of our audit, we did an analysis to determine if it would be cost beneficial to expand the use of the Main Library's theft detection system and to install similar systems at the other fifteen branch libraries. In doing our cost/benefit analysis we assumed the following:

- A theft loss equal to 1 percent of book inventory per year.

- An average cost per book of \$10. This is a conservative estimate given that the Library estimates replacement costs are about \$20 per book and the annual inflation rate for books is expected to be 9.6 percent through 1991.
- Theft detection system costs of:
  - \$4,700 for sensing units/gate
  - \$3,000 for sensitizers and desensitizers
  - \$0.12 each for magnetic strips
  - \$0.06 in labor costs for each magnetic strip.
- A theft detection system would be cost effective if it had a payback of three years or less

Based upon the above assumptions, we estimate that it would be cost effective for the Library to expand the use of its theft detection system at the Main Library and install similar systems in at least four additional branch libraries. TABLE IV summarizes our analysis of the cost effectiveness of expanding the Library's use of theft detection systems.



**TABLE IV**  
**ANALYSIS OF THE COST EFFECTIVENESS OF**  
**EXPANDING THE LIBRARY'S USE OF**  
**THEFT DETECTION SYSTEMS**

Branch <sup>1</sup>	Book Inventory As Of <u>April 1989</u>	Assumed Value Of Books Lost To Theft <u>Each Year</u>	Estimated Cost To Install Theft Detection <u>Systems</u>	Three Year Payback
<b>Main</b>	<b>237,226<sup>2</sup></b>	<b>\$23,723</b>	<b>\$48,000<sup>3</sup></b>	<b>Yes</b>
<b>Cambrian</b>	<b>76,422</b>	<b>7,642</b>	<b>21,456</b>	<b>Yes</b>
<b>Almaden</b>	<b>71,571</b>	<b>7,157</b>	<b>20,583</b>	<b>Yes</b>
<b>Pearl Ave</b>	<b>71,479</b>	<b>7,148</b>	<b>20,566</b>	<b>Yes</b>
<b>West Valley</b>	<b>64,710</b>	<b>6,471</b>	<b>19,348</b>	<b>Yes</b>
Evergreen	62,960	6,296	19,033	No
Calabazas	59,541	5,954	18,417	No
Berryessa	57,460	5,746	18,043	No
Seven Trees	52,910	5,291	17,224	No
Hillview	47,107	4,711	16,179	No
Willow Glen	45,567	4,557	15,902	No
Rosegarden	43,140	4,314	15,465	No
Carnegie	36,117	3,612	14,201	No
Empire	31,627	3,163	13,393	No
Biblioteca	24,283	2,428	12,071	No
Alviso	10,615	1,062	9,611	No
Bookmobile	5,746	575	8,734	No

With regard to the above analysis, some additional comments are pertinent. We recognize there may be associated costs to install theft detection systems and that actual paybacks will vary in proportion to actual theft rates and installation costs at individual branches. We also recognize

<sup>1</sup> Excludes Educational Park and Santa Teresa where theft detection systems are already in place.

<sup>2</sup> Excludes reference materials that are already under the protection of a theft detection system.

<sup>3</sup> Estimated cost to complete the Main Library's theft detection.

that expanding the use of theft detection systems will increase staff time for 1) “taping” new materials, 2) desensitizing and sensitizing materials as they are checked out and returned, and 3) dealing with patrons that set off the alarm. However, in our opinion, the impact theft detection systems would have on staff time can be mitigated. For example, theft detection equipment manufacturers told us that the most efficient way to “tape” a collection is to tape 1) the reference collection and suspected high loss areas first, 2) new acquisitions as they arrive, and 3) other materials as they are checked out and returned. This approach should be the least disruptive and time consuming while still affording expanded theft protection.

With regard to desensitizing and sensitizing materials, librarians told us that the process only requires a “few seconds.” Therefore, this process should have a minimal impact on staffing. The last issue -- staff having to deal with patrons who set off the detection system -- is a natural consequence of having the system. In other words, to the extent the system is effective at stopping patrons who intentionally or unintentionally attempt to exit with materials they did not check out, staff time will be required. However, such use of staff time is obviously time well spent. Further, to the extent the theft detection system works, the Library may actually realize a net savings in staff time. Such a savings could result if Library staff did not have to search for as many missing items or reorder and reprocess as many items to replace those items that are stolen.

## **CONCLUSION**

Expanding and adding to the Library’s theft detection systems appears to be cost effective for the Main Library and at least four branch libraries.

The Library should pursue enhancing its theft detection system capabilities and, if possible, utilize Construction and Conveyance Tax Funds to do so.

### **RECOMMENDATION**

We recommend that the Library:

#### **Recommendation #4:**

Place magnetic theft detection strips in the remaining cataloged and circulating items in the Main Library's collection and install theft detection systems in at least four additional branch libraries using Construction and Conveyance Tax Funds. (Priority 2)

## **FINDING III**

### **THE LIBRARY IS NOT IN COMPLIANCE WITH CITY CODE REQUIREMENTS REGARDING THE DISPOSAL OF SURPLUS LIBRARY MATERIALS**

The Library discards items from its shelves which are surplus to its collection needs or are physically so worn as to be unusable. The San Jose Municipal Code prescribes how these materials are to be transferred to the Department of General Services for subsequent disposal. However, our review revealed that the Library is not in compliance with the Municipal Code regarding the disposal of surplus property. Specifically, the Library neither transfers surplus items to the Department of General Services nor notifies General Services when materials are given to the Friends of the Library. As a result, the City Council does not consent to the disposal of surplus materials at book sales as the Municipal Code requires.

#### **The Library Disposes Of Surplus Materials**

Librarians are authorized to discard outdated, damaged or unused items from the Library's collection. This is called "weeding", which is a common practice among libraries to ensure that collections are current. To ensure consistency, the Library has drafted criteria for weeding some portions of its collection. For example, in certain non-fiction areas, the Library's goal has been to weed materials that are older than five years.

Materials which have been selected for discard are deleted from the Library's inventory system. The items are sent to the basement at the Main Library where a team of three librarians reviews them. Those items selected

for weeding are boxed and given to the Friends of the San Jose Library, Inc. (Friends of the Library). The Friends of the Library is a non-profit group of volunteers dedicated to helping the San Jose Public Library System. The Friends of the Library sell the surplus library materials at its book store at the Main Library and at periodic book sales. The Friends of the Library distributed the net proceeds from these sales as follows. From 1979 to 1988, the Friends of the Library retained 75 percent of the proceeds with 25 percent going to the City's General Fund. In 1988 the Library requested, and the City Manager's Office authorized, the Friends of the Library to retain 100 percent of the revenues from these sales.

The Library does not count, list or prepare any kind of memorandum documenting the number of items which librarians determine to be surplus. Therefore, we were unable to determine the number of books the Library has given to the Friends of the Library. However, the Library does have records of sales revenues from the Friends of the Library book sales. These sales generated the following amounts of revenues in 1985-86 through 1987-88:

\$1,804 in 1985-86  
\$2,228 in 1986-87  
\$2,431 in 1987-88

### **City Code Specifies The Process For Disposal Of Surplus Library Materials**

The San Jose Municipal Code specifies procedures for disposing of surplus property. Municipal Code Section 2.28.150 specifies that the

department head should transfer surplus property to the Director of General Services. Specifically:

*“If the head of any department of the city government determines that any personal property of the city under his jurisdiction or control is not needed or suitable for a public use, he shall transfer such property to the director of general services as surplus property.”*

Furthermore, Municipal Code Section 2.28.170 specifically authorizes the Director of General Services, with the consent of the City Council, to dispose of library materials.

*“The director of general services, with the consent of the council, is hereby authorized to dispose of surplus hard-cover books, paperback books, records and magazines by private sale. The director of general services is hereby authorized, from time to time, to contract with a responsible person to act as a selling agent for the city to dispose of such surplus library materials at a reasonable fee, such sum of money to be paid from the proceeds of the sale.”*

### **The Library Is Not Following The Procedures Prescribed By The City Code**

Our review found that the Library is not following the prescribed procedures for disposing of surplus property. Specifically, the Library does not transfer its surplus property to General Services. Instead, the Library transfers most surplus library materials directly to the Friends of the Library in the basement at the Main Library. Furthermore, the Library does not notify General Services of these transactions. In fact, we found that General Services plays virtually no role in the disposal process. As a result, the City Council is precluded from granting its Municipal Code required consent. For example, in April 1988, the City Librarian submitted, and the Deputy City Manager approved, the most recent authorization for the Friends of the Library to sell discarded books and keep the proceeds.

In our opinion, the Library should meet with representatives from the Department of General Services to determine the least disruptive way to bring the Library's process for disposing of surplus materials into compliance with the Municipal Code.

## **CONCLUSION**

The Library's process for disposing of surplus library materials is not in compliance with the City's Municipal Code. The Library Department should develop and implement procedures that are in compliance with City Code requirements.

## **RECOMMENDATION**

We recommend that the Library:

### **Recommendation #5:**

Meet with representatives from the Department of General Services to discuss how the Library's procedures for disposing of surplus library materials can be brought into compliance with the City Code. These procedures should include:

- Notifying the Department of General Services that the Library has surplus materials to discard;

- Ensuring that agreements with the selling agent, the Friends of the Library, are properly executed; and
- Obtaining the consent of the City Council to dispose of surplus materials at book sales.  
(Priority 2)



## **FINDING IV**

### **THE LIBRARY NEEDS ADDITIONAL INFORMATION AND POLICIES REGARDING OVERDUE MATERIALS, FINES AND CHARGES**

The Library has policies and procedures for collecting overdue library materials, fines and charges. However, our review revealed that the Library's collection efforts are inadequate because:

- The Library does not follow up on patrons with overdue materials in a timely manner;
- The Library's collection efforts are limited;
- The Library does not have a policy for writing off clearly uncollectible accounts; and
- The Library lacks written guidelines regarding when to allow patrons with overdue materials to check out additional materials.

As a result, as of April 1989, 115,699 Library patrons owed the Library \$1,062,960 for overdue materials, fines and charges. By improving its information base for patrons owing materials, fines and charges, the Library should be able to recover more materials and collect more fines and charges.

#### **Library Policies On Overdue Materials**

It is essential that the San Jose Public Library protect its materials collection if it is to achieve its mission of making a collection of materials

accessible to the community. Designing controls that ensure that patrons return those materials they check out is one way libraries protect their collections. Those materials that patrons do not return are by definition unavailable for other patrons to check out. In addition, libraries must use funds that could be used to purchase new materials or expand collections to replace those items not returned.

The San Jose Public Library has established policies and procedures to encourage patrons to return overdue library materials such as books, video cassettes and audio cassettes. For most items, the Library allows a three week check-out period. When patrons fail to return books and audio cassettes on time, the Library charges a fine of 10¢ per day up to a maximum of \$2. For video cassettes, the Library charges \$2 per day up to a maximum of \$10. In addition, if a patron loses or fails to return an item, the Library charges the patron for the cost of the item plus a \$2 handling charge.

### **Procedures For Pursuing Overdue Accounts**

The Library also has procedures for collecting materials, fines and charges. For example, if a patron fails to return materials within four weeks of the due date, the Library mails the patron a bill for the cost of delinquent materials. The bill identifies the overdue material, the cost of the material, the delinquent fine amount, and a \$2 handling charge. However, if the patron returns the overdue material, he or she is required to pay only the fine.

In addition to billing patrons, the Library uses additional approaches for patrons owing more than a specified amount. For example, the Library's

procedures require staff to telephone patrons if the cost of the overdue materials plus the amount of fine exceeds \$50. While the Library's procedures do not specify the time frame in which staff should telephone patrons, Library staff has an informal procedure to call patrons within a week of the billing.

### **The Library Needs To Improve Its Collection Efforts**

Our review found that the Library needs to improve its collection efforts. Specifically, the Library:

- Does not contact patrons with overdue materials in a timely manner;
- Makes limited collection efforts;
- Lacks a formal policy for writing off clearly uncollectible accounts; and
- Lacks a formal policy regarding when to allow patrons with overdue materials to check out additional materials.

### **The Library Does Not Contact Patrons In A Timely Manner**

We reviewed the Library's procedures to determine if it is contacting patrons in a timely manner. Specifically, we reviewed 83 of 611 delinquent accounts over \$50 to determine if, as staff asserted, the Library contacted the patrons within a week of billing. Our review found that the Library had contacted only 47 of the 83 patrons in our sample, or 57 percent. For the accounts in our sample that the Library did contact, the Library averaged 21 days to do so. For the accounts in our sample that the Library did not contact, an average of 44 days had elapsed since the Library had billed the

patron. Therefore, our analysis indicates that Library staff is not complying with the Library's informal procedure to contact patrons owing more than \$50 within 7 days of billing.

According to the Circulation Supervisor in charge of collections, other staffing priorities and problems with the Library's new circulation system have hampered the Library's collection efforts. For example, Library management frequently uses collection staff for public service functions. As a result, collection staff has less time available to contact patrons with overdue materials. The Library's new circulation system has also hindered collection efforts. Since the Library converted to its new system in April 1989, the collection staff must manually create and maintain files for those patrons who need to be contacted. The Library's old circulation system produced a weekly report that updated the status of patron accounts over \$50. These reports also included information that the collection staff needed in order to telephone or write patrons.

We also found that the Library needs to establish written collection priorities to improve collection timeliness and the effectiveness of its limited collection staff. For example, the Library lacks guidelines that specify how often and for how long staff should contact patrons with overdue materials. Without these guidelines, we found the staff was inconsistent in its collection efforts. For example, in our sample of 83 accounts, we found that while staff attempted to contact many patrons with overdue materials up to three times, the staff did not attempt to contact some patrons at all. Furthermore, staff attempted to contact two patrons more than four times. In our opinion, the Library could make better use of its limited collection staff

if it required the staff to try and contact more patrons at least once rather than attempting to contact some patrons three or more times. This is an important consideration because the longer the Library waits to contact a patron with overdue materials, the less likely it becomes that the patron will return the overdue materials.

### **Collection Efforts Are Limited**

We also found that the Library's collection efforts are limited. As was noted earlier, the Library's policy is to 1) mail a bill to patrons 28 days after items become overdue, and 2) telephone patrons who owe more than \$50. However, the Library only sends one bill to those patrons owing less than \$50.

As part of our audit, we contacted other libraries and found that they use stronger and more varied collection methods than San Jose does. For example, most of the libraries we contacted send at least two collection notices.

We also found that other libraries use public or private collection agencies to pursue overdue accounts after their initial collection efforts fail. For example, several libraries use either their own Finance Department or their Tax Collector to pursue these accounts. In addition, the Sacramento City and County Public Library and other California libraries use a private collection agency that specializes in library collections to pursue delinquent accounts. This agency sends out a series of letters to patrons with overdue materials informing them to return the materials to the library. The premise for using a third party for collection is that patrons are more likely to

respond to a letter from a collection agency than a letter from the library. The cost of using this agency varies depending on the number of accounts referred. For example, the agency charges \$7 per account to work the first 1,000 accounts per year. The cost per account decreases as the number of accounts referred increases. The libraries that use this service typically charge the patron for the cost. According to the Deputy Director of the Sacramento City and County Public Library, the use of a private collection agency has proven to be very successful.

The San Diego Public Library initiated an amnesty program as another means of retrieving overdue materials. This program allowed patrons to return, free of charge, materials that had been overdue for extended periods of time. According to an official from San Diego, the amnesty program not only increased the number of materials returned but provided the Library with increased publicity as well.

It should be noted that the Library requested, and the City Council approved, additional funds to allow the Library to mail additional notices beginning in the 1990-91 fiscal year. In addition, at one time, the Library considered using the City Treasurer's Office to pursue overdue accounts. However, this alternative was not implemented. In our opinion, the Library should explore the option of using a collection agency to contact patrons with overdue library materials.

## **The Library Lacks A Formal Policy For Writing Off Clearly Uncollectible Accounts**

Writing off old and uncollectible accounts is a common accounting and managerial practice. Typically, business and governmental entities write off accounts after they have been delinquent for a specified period of time. Writing off accounts provides greater assurance that an entity's accounts receivable are in fact collectible. A prerequisite to writing off accounts is a formal management policy that defines when an account should be considered uncollectible and written off. However, our review revealed that the Library does not have a policy for writing off its clearly uncollectible accounts. Instead, the Library keeps patron accounts on its circulation system indefinitely. As a result, the Library may be wasting staff time pursuing uncollectible accounts and taking up computer storage space keeping track of these accounts.

It should be noted that the Library did write off patron accounts that had been delinquent for more than four or five years<sup>4</sup> preparatory to converting to its new circulation system. In our opinion, the Library needs to establish a written policy to facilitate the writing off of all patron accounts that have been delinquent for more than a specified period of time.

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<sup>4</sup> The Library wrote off accounts of less than \$50 if they were four or more years delinquent. If the amount owed was \$50 to \$500, the Library wrote off the accounts that were five or more years delinquent.

### **The Library Lacks A Formal Policy Regarding When To Allow Patrons With Overdue Materials To Check Out Additional Materials**

The Library's circulation system does not allow patrons with overdue materials to check out new materials until they return the overdue materials or pay their fines and charges. However, Library staff can override the circulation system and allow patrons with overdue materials to check out new materials. For example, prior to installing its new circulation system in May 1989, the Library's informal override guideline was that the maximum number of system overrides was five. In other words, the Library would allow patrons with overdue materials up to five opportunities to check out additional materials. However, because the Library's new circulation system cannot count the number of times staff overrides the system for a particular patron, the Library has no formal policy regarding the number of times staff can override the system or when it is permissible to do so. According to Library management, they have verbally communicated at staff meetings the Library's system override policy. However, Library management should formalize its system override policy to ensure that staff understands and complies with it.

### **As Of April 1989, Library Patrons Owed \$1,062,960 For Overdue Materials And Delinquent Fines And Charges**

The number of patrons with overdue materials and the amount of fines and charges have increased significantly in the last several years. In March 1986, the Library's patron records on its automated circulation system were destroyed. Consequently, in 1986, the Library had to start accumulating new records on patrons with overdue materials and/or fines and charges.



From March 1986 to April 1989, the number of patrons who owed the Library materials and/or fines and charges had grown to 115,699. These patrons owed the Library \$1,062,960. TABLE V summarizes the number of patrons owing fines and charges as of April 1988 and April 1989.

**TABLE V**  
**SUMMARY OF THE NUMBER OF PATRONS**  
**OWING FINES AND CHARGES AS OF**  
**APRIL 1988 AND APRIL 1989**

<b><u>Categories</u></b>	<b><u>April 1988</u></b>	<b><u>April 1989</u></b>
Number of Patrons Owing Fines And Charges	90,779	115,699
Number of Materials Overdue	101,771	121,452
Amount of Fines And Charges Owed	\$778,534	\$1,062,960

Source: Library Department Patron Status Reports and Item Status Reports.

As is shown in TABLE V as of April 1989, 115,699 patrons had 121,452 overdue library materials. These patrons owed the Library \$1,062,960 in 1) the cost of the overdue materials, 2) fines of up to \$2 per overdue book and audio cassette item and \$10 per overdue video cassette item, and 3) a \$2 handling charge per overdue item.

It should be noted that the numbers in TABLE V include an unknown number of patrons with materials that were overdue less than 28 days. This is significant because patrons frequently return items overdue less than 28 days and the Library does not initiate any collection efforts until patrons are more than 28 days late returning materials. As a result, TABLE V overstates the size of the Library's collection problem to the extent it includes those items overdue less than 28 days. However, it should also be noted, that the

numbers in TABLE V are only as current as April 1989. This is because the Library has not been able to produce information on patrons owing materials, fines and charges since it converted to its new circulation system in May 1989. Given the growth shown in TABLE V in the number patrons owing materials, fines and charges from April 1988 to April 1989, we conservatively estimate that as of April 1990 patrons owed the Library \$1.2 million in fines and charges.

### **The Library Needs To Improve Its Information Base For Patrons Owning Materials, Fines And Charges**

The Library's ability to develop new collection strategies and assess the effectiveness of its collection efforts is impaired because it lacks adequate and reliable information on overdue materials, fines and charges. Specifically, the Library lacks information regarding the amount and number of overdue materials, comparative statistics on delinquencies, an aging of accounts, and a dollar amount stratification of overdue accounts. In fact, as of June 1990, the Library's old circulation system provided much more information on patrons owing materials, fines and charges than its new \$1.5 million circulation system does. Specifically, the Library's old circulation system provided a Patron Status Report, an Item Status Report, a Monthly Statistical Summary, and a weekly update on the status of patron accounts over \$50. These reports and the information they contained are shown below:

#### **PATRON STATUS REPORT**

- Total number of patrons who owed money;
- Total amounts patrons owed;

- Total number of patrons owing less than \$50 in fines only;
- Total owed by patrons owing less than \$50 in fines only;
- Number of patrons owing less than \$50 for over 4 years;<sup>5</sup> and
- Number of patrons who owed between \$50 and \$500 for over 5 years.<sup>5</sup>

#### ITEM STATUS REPORT

- Number of items overdue for 4 weeks or more; and
- Aging of items overdue 4 weeks or more as follows:
  - under 30 days, under 60 days, under 90 days, under 180 days, over 180 days.

#### MONTHLY STATISTICAL SUMMARY

- Number of delinquent overrides;
- Number of overdue notices;
- Patron turnaways;
- Amount of fines collected; and
- Amount of fines adjusted.

#### WEEKLY COLLECT ADD/DELETE LIST

- Name, address and phone number of patrons owing more than \$50;
- The name, address and phone number of patrons who owed over \$50 the previous week but now owe less than \$50; and
- The amount individual patrons owed the previous week and the current week.

It should be noted that the Circulation Unit manually prepares a monthly report which summarizes for accounts over \$50 the number of 1) calls made, 2) rebills sent, and 3) amounts retrieved. This is the only report on collection activities that Library management is currently receiving.

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<sup>5</sup> These accounts were subsequently written off (see Page 43).

In our opinion, the Library should program its new circulation system to provide the same information its old system provided. In addition, the Library needs information regarding a dollar stratification and aging of patron accounts. With this information, the Library will be able to develop collection effort goals and objectives and assess its progress toward meeting those goals. Further, this information will give Library management the information it needs to develop, implement and assess its collection strategies.

## **CONCLUSION**

Our review found that patrons owed the Library \$1,062,960 in fines and charges as of April 1989, and that the Library needs to improve its collection efforts. Specifically, we found that the Library does not contact patrons with overdue library materials in a timely manner and that its collection efforts are limited. Further, the Library lacks policies for writing off clearly uncollectible accounts and allowing patrons with overdue materials to check out additional materials. Finally, by developing adequate and reliable patron account information, the Library should be able to recover more materials and collect more fines and charges.

## **RECOMMENDATIONS**

We recommend that the Library:

### **Recommendation #6:**

Mail additional notices to patrons with overdue library materials.  
(Priority 2)

**Recommendation #7:**

Produce monthly patron account reports similar to the Patron Status Report, the Item Status Report, the Monthly Statistical Summary and the Weekly Collect Add/Delete List that the Library's old circulation system produced. In addition, the Library should also produce reports that show:

- The age of delinquent accounts;
- A stratification of patron accounts by dollar amount; and
- Monthly changes in the number and amount of patron accounts.  
(Priority 3)

**Recommendation #8:**

Establish collection effort goals and objectives and a comprehensive plan for achieving them. Specifically, the Library's plan should include an evaluation of:

- Mailing additional delinquent notices to patrons;
- Using temporary or part-time staff to call patrons with overdue materials;
- Using a collection agency;
- Charging patrons for the cost of its collection efforts; and
- Instituting an amnesty program.  
(Priority 2)

**Recommendation #9:**

Establish written priorities for its collection efforts. These priorities should specify how often and when staff should attempt to contact patrons. (Priority 3)

**Recommendation #10:**

Develop and implement policies and procedures for writing off old and uncollectible patron accounts. (Priority 3)

**Recommendation #11:**

Develop and implement a written circulation system override policy and program its circulation system to count the number of times staff overrides the system for patrons with overdue materials. (Priority 2)

## **FINDING V**

### **THE LIBRARY DEPARTMENT'S FINANCIAL INFORMATION IS INADEQUATE AND UNRELIABLE AND IMPAIRS MANAGEMENT'S ABILITY TO MAKE SOUND BUDGETARY AND DAY-TO-DAY OPERATING DECISIONS**

Recent authoritative pronouncements have stressed the importance of management's attitude about and responsibilities for internal controls and the reliability of the financial information produced under those internal controls. These attributes are important for the Library Department because it issues numerous purchase orders and maintains its own internal acquisition accounting system to augment the City's financial management system (FMS). However, our review of the Library's financial management system revealed a lack of:

- Policies and procedures to provide adequate financial system internal controls;
- Adequate supervision over budgeting and accounting activities;
- Separation of duties among staff for authorizing, processing, recording and reviewing transactions;
- Technically trained accounting staff to maintain and improve the system; and
- Adequate documentation to support accounting and budgeting activities.

As a result, Library management uses unreliable and inaccurate financial information as a basis for planning and making day-to-day operating decisions. By adding to and upgrading its accounting staff, making better use of its financial management system, and implementing

new accounting control procedures, Library management's ability to make sound budgetary and day-to-day operating decisions will be improved.

### **The Library Needs Strong Budget And Accounting Controls**

Library management needs timely, accurate and reliable accounting and financial information to use as a basis for budgetary control and daily working decisions. The need for such information is highlighted in two recent authoritative pronouncements. First, in October 1987, the National Commission on Fraudulent Financial Reporting, better known as the Treadway Commission, issued statements about the need for accurate, reliable financial reporting. The Treadway Commission Report presents findings, conclusions and recommendations concerning fraudulent financial reporting. The Treadway Commission broadly defined fraudulent financial reporting as "intentional or reckless conduct, whether act or omission, that results in materially misleading financial statements." Such "reckless conduct" can take many forms, including misapplication of accounting principles or disregard for accounting controls. However, even unintentional acts or errors may also lead to materially misleading financial reporting.

In April 1988, the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards Number 55, which stressed that accurate reporting is the responsibility of management. Both the Treadway Commission and the AICPA noted that management must identify and assess those risk factors that can lead to fraudulent or misleading financial reporting. These pronouncements both emphasize that it is management's responsibility to maintain adequate internal controls to



provide for the prevention or early detection of fraudulent or misleading financial reporting.

Therefore, to ensure accurate and reliable financial information, Library management must identify, understand and assess the risk factors that may cause inaccurate or unreliable financial information. Further, it is Library management's responsibility to develop adequate internal control objectives and techniques to prevent and detect fraudulent, misleading or unreliable financial reporting. Library management's internal control system is the collective policies and procedures that are designed to reduce business risks, accurately report on business activities and ensure the achievement of management's objectives.

The City of San Jose's Library Department needs accurate and reliable internally generated financial reports and information. This is because the Library issues numerous purchase orders and maintains its own internal acquisition accounting system to augment the City's financial management system (FMS). For example, the Library issues about 60,000 purchase orders per year for the acquisition of library books and non-book materials and records payments against those purchase orders.

INNOVACQ is the Library's internal acquisition accounting system. The Acquisitions Division of Library Technical Services uses INNOVACQ to:

- Process librarians' requests for books and non-book materials;
- Issue purchase orders;
- Record vendor payments;

- Provide transaction audit trails of orders and payments;
- Track vendor activity and performance; and
- Provide management with accounting reports showing fund activity, encumbrances and appropriation balances.

### **The Library Lacks A Strong Internal Control Environment**

The Library has a critical need for a strong internal control environment and financial management control procedures coupled with a reliable accounting system. Without these elements, the Library lacks the information it needs to plan its activities and stay within its City Council approved budget. The Library should have the following controls in place over its financial reporting system:

- Fund accounting and budget policies and procedures for:
  - reporting encumbrances accurately;
  - controlling acquisition expenditures;
  - batch processing payments;
  - reconciling fund account activity and balances;
  - recording sales tax and other adjustments on INNOVACQ;
  - developing reliable budget estimates;
  - reviewing contracts;
  - analyzing budget trends and variances; and
  - reviewing budget figures for accuracy.
- Supervision of its accounting activities;
- Separation of duties among staff for authorizing, processing, recording, and reviewing transactions;
- Technically trained accounting staff; and

- Documentation of all transactions and adjusting entries.

The following TABLE VI summarizes 1) the benefits the above controls would provide to the Library, 2) the risks the Library is exposed to by not having each control in place, and 3) whether the Library has adequately implemented each control.

**TABLE VI**

**COMPARISON OF REQUISITE FINANCIAL MANAGEMENT, BUDGETING  
AND REPORTING SYSTEM CONTROLS, BENEFITS AND ASSOCIATED RISKS  
TO ACTUAL LIBRARY CONTROLS IN PLACE**

<u>Requisite Controls</u>	<u>Control Benefits</u>	<u>Associated Risk of Not Implementing Requisite Controls</u>	<u>Actual Library Controls In Place</u>
<i>Policies And Procedures</i>			
(1) Acquisition encumbrances should be calculated and reported to accurately reflect expected amounts due to Library vendors.	(1a) Provides relevant budget information to Library management for use in planning and decision-making.	(1a) INNOVACQ encumbrance balances may not reflect actual amounts expected to be paid to Library vendors.  (1b) Available acquisition funds may be over-encumbered to compensate for inflated distortion of encumbrance balances on INNOVACQ.  (1c) Acquisitions may not be in accordance with approved Library collection development plan.	(1a) Not implemented.  INNOVACQ encumbrance balances are inflated because they are recorded at list price instead of discount price. List price does not reflect actual payments anticipated in accordance with expected vendor discounts.
(2) Routine review and control techniques such as INNOVACQ's "flagging" feature should be used to control acquisition expenditures in accordance with Library management's policies and plans.	(2a) Allows Library management to determine if expenditures are authorized, appropriate, reasonable, and in accordance with its policies and plans.	(2a) Unauthorized expenditures may not be detected in a timely manner.  (2b) Individual fund allocations or branch budgets may be overspent or over-encumbered.  (2c) Actual budget compared to planned budget may not be in accordance with management's policies and plans.	(2a) Partially implemented.  INNOVACQ is set to produce a warning flag when a fund code is 95% used. However, the Library routinely overrides, allowing new encumbrances that cause funds to exceed 100% used. Subsequent transfers from other available funds are not required.

**TABLE VI (Cont)**

**COMPARISON OF REQUISITE FINANCIAL MANAGEMENT, BUDGETING  
AND REPORTING SYSTEM CONTROLS, BENEFITS AND ASSOCIATED RISKS  
TO ACTUAL LIBRARY CONTROLS IN PLACE**

<u>Requisite Controls</u>	<u>Control Benefits</u>	<u>Associated Risk of Not Implementing Requisite Controls</u>	<u>Actual Library Controls In Place</u>
(3) Batch processing techniques should be used to assure that payments to Library vendors for materials acquisitions are paid and recorded accurately and promptly.	(3a) Confirms that all acquisition invoices are paid accurately and promptly.	(3a) Backlogs, errors and omissions in processing acquisition payment transactions may not be detected and corrected.	(3a) Partially implemented.  INNOVACQ and FMS have individual system controls designed to check entered batch dollar total against sum of detail entered.
	(3b) Confirms that all acquisition payments are recorded on both INNOVACQ and FMS.	(3b) Expenditures may be misstated due to undetected backlogs, errors or omissions in processing.	However, invoices are not batched and followed from point of receipt, through INNOVACQ and FMS posting, on to final FMS release for payment. Thus, invoices may not be recorded in the same period and for the same amount on both systems.
	(3c) Confirms that the same invoices are recorded on INNOVACQ and FMS for the same dollar total actually paid by the City.		
(4) Library acquisition fund activity and balances on INNOVACQ should be reconciled to the City's financial system (FMS).	(4a) Provides assurance to Library management that INNOVACQ reports are accurate and reliable as a basis for planning and decision-making.	(4a) Library internal budget information may be inconsistent and overstated or understated compared to the City's financial system.	(4a) Not implemented.  Library management was not able to follow through with plans to reconcile monthly in fiscal year 1989-90.
	(4b) Provides City Finance Department with accurate budget information on Library acquisition fund appropriation balances.	(4b) Decisions based on erroneous information may have adverse results such as over-encumbrance of funds or uneconomical use of resources.	
	(4c) Allows for timely detection and correction of errors and omissions in appropriations recorded on INNOVACQ or FMS.	(4c) Errors and omissions in transaction processing may not be detected.	
		(4d) INNOVACQ and FMS adjustments needed to correct detected errors and omissions may not be made.	

**TABLE VI (Cont)**

**COMPARISON OF REQUISITE FINANCIAL MANAGEMENT, BUDGETING  
AND REPORTING SYSTEM CONTROLS, BENEFITS AND ASSOCIATED RISKS  
TO ACTUAL LIBRARY CONTROLS IN PLACE**

<u>Requisite Controls</u>	<u>Control Benefits</u>	<u>Associated Risk of Not Implementing Requisite Controls</u>	<u>Actual Library Controls In Place</u>
(5) All Library acquisition expenditures should be accurately and promptly recorded on INNOVACQ, including sales tax and needed adjustments.	<p>(5a) Aids the reconciliation process by assuring that transaction items causing an identified difference in a current monthly reconciliation will be confined to the current month's activity.</p> <p>(5b) Provides assurance that out-of-balance situations are mostly due to timing differences and isolated errors or omissions.</p>	<p>(5a) Reconcilements of INNOVACQ to FMS may be prevented or seriously impeded by a number of aged unposted adjustments.</p>	<p>(5a) Partially implemented.</p> <p>An April 1990 memo instructs the Senior Acquisitions Librarian to post two quarters' sales tax charge adjustments to INNOVACQ.</p> <p>However, there is no written procedure for continuous routine INNOVACQ posting of sales tax and other needed adjustments.</p>
(6) Reliable estimates should be developed and used for Library budget planning and preparation.	<p>(6a) Provides reasonable, realistic and reliable information to Library management for use in budget planning and decision-making.</p>	<p>(6a) Budget may overestimate or underestimate expected revenues or expenses.</p> <p>(6b) Approved budget may not meet the Library's needs.</p>	<p>(6a) Not implemented.</p> <p>Library does not have specific procedures for the development of budget estimates, requiring adequate management review and approval of supporting analyses.</p>
(7) All Library contracts should be adequately reviewed by management for fiscal impact.	<p>(7a) Allows Library management to make best cost/benefit decisions when there are contract alternatives with different fiscal impact.</p> <p>(7b) Allows Library management to use current, accurate information for budget planning and preparation.</p>	<p>(7a) Budgets may not accurately reflect anticipated fiscal impact of contracts.</p> <p>(7b) Executed contracts may not be financially advantageous to the Library.</p>	<p>(7a) Not implemented.</p> <p>Library does not have specific procedures for management financial review and approval of all contract agreements.</p>

**TABLE VI (Cont)**

**COMPARISON OF REQUISITE FINANCIAL MANAGEMENT, BUDGETING  
AND REPORTING SYSTEM CONTROLS, BENEFITS AND ASSOCIATED RISKS  
TO ACTUAL LIBRARY CONTROLS IN PLACE**

<u>Requisite Controls</u>	<u>Control Benefits</u>	<u>Associated Risk of Not Implementing Requisite Controls</u>	<u>Actual Library Controls In Place</u>
(8) Budget review and control techniques such as variance or trend analysis should be used to detect the extent and trend of actual expenditure variances from the planned budget.	(8a) Allows Library management to determine if expenditures are authorized, appropriate and reasonable.  (8b) Allows Library management to take timely corrective action when variances are unacceptable.	(8a) Unacceptable levels or trends of variance may not be detected in a timely manner.  (8b) Causes of unacceptable variances such as unauthorized spending, extraordinary timing differences, and gross errors or omissions may not be identified and corrected in a timely manner.  (8c) Department mission goals may be jeopardized or its effectiveness and efficiency reduced because actual budgets vary from management's plans.	(8a) Partially implemented.  Senior Management Analyst used three year trend analysis of changes in budget allocations as a budget training tool for branch librarians.  However, specific procedures do not exist for using variance or trend analysis to routinely monitor budgets by divisions or branches.
(9) Recorded Library budget balances on the City financial system (FMS) and all internal Library financial systems (manual or computer) should be periodically substantiated and evaluated.	(9a) Provides reliable financial information about fund appropriations, budget allocations, and related transaction activity for Library management's use in planning and decision-making.	(9a) Reports may not fairly present what they purport to display.  (9b) Information on manual ledgers or personal computer systems may not be taken from or reconciled to reliable financial reporting systems or sources.  (9c) Detail budget data may not be properly controlled, accounted for or reconciled with appropriations adopted by ordinance or approved budget allocations.  (9d) Critical decisions may be based upon erroneous information.  (9e) Errors and omissions in transaction processing may not be detected and corrected.  (9f) Budget process may be uneconomical and inefficient.	(9a) Not implemented.  Library procedures do not provide for routine periodic substantiation and evaluation of its budget balances on all Library and City financial systems.

**TABLE VI (Cont)**

**COMPARISON OF REQUISITE FINANCIAL MANAGEMENT, BUDGETING  
AND REPORTING SYSTEM CONTROLS, BENEFITS AND ASSOCIATED RISKS  
TO ACTUAL LIBRARY CONTROLS IN PLACE**

<u>Requisite Controls</u>	<u>Control Benefits</u>	<u>Associated Risk of Not Implementing Requisite Controls</u>	<u>Actual Library Controls In Place</u>
<i>Supervision Of Budget And Accounting Activities</i>			
(10) Budget and accounting activities should be adequately supervised.	<p>(10a) Provides assurance that all activity is in accordance with Library management's plans, policies and procedures.</p> <p>(10b) Provides assurance to management that Library operations are effective, efficient and economical.</p> <p>(10c) Provides assurance to management that Department mission is accomplished.</p>	<p>(10a) Fraud, waste and abuse may go undetected.</p> <p>(10b) Operations may be ineffective, inefficient or uneconomical.</p> <p>(10c) Significant errors may go undetected.</p> <p>(10d) Unreviewed records and activities may not support reliable financial information and operating reports.</p> <p>(10e) Policies and procedures may not be followed, jeopardizing specific objectives and ultimately the Department mission.</p>	<p>(10a) Not implemented.</p> <p>For example:</p> <p>1) Control and activity summary reports prepared by the Senior Account Clerk do not receive supervisory review and approval.</p> <p>2) Estimates, ledgers and reports prepared by Staff Analyst I do not receive critical review and approval by Senior Management Analyst.</p>
<i>Separation Of Duties</i>			
(11) Key fund accounting duties and responsibilities for authorizing, processing, recording, and reviewing transactions should be separated among individuals.	(11a) Provides assurance that all Library fund accounting activity is in accordance with management's plans, policies and procedures.	(11a) Fraud, waste, abuse and errors may not be detected.	<p>(11a) Not implemented.</p> <p>Key duties are not adequately separated for the fund accounting function. For example, Acquisitions' Senior Account Clerk processes, records, reviews and reports on fund accounting transactions.</p>



**TABLE VI (Cont)**

**COMPARISON OF REQUISITE FINANCIAL MANAGEMENT, BUDGETING  
AND REPORTING SYSTEM CONTROLS, BENEFITS AND ASSOCIATED RISKS  
TO ACTUAL LIBRARY CONTROLS IN PLACE**

<u>Requisite Controls</u>	<u>Control Benefits</u>	<u>Associated Risk of Not Implementing Requisite Controls</u>	<u>Actual Library Controls In Place</u>
<i>Technically Trained Accounting Staff</i>			
(12) Library personnel policies and procedures should provide for adequate resources, including staff meeting its technical accounting needs. Job classifications should ensure that staff has the qualifications to do the jobs assigned.	(12a) Provides technically qualified accounting personnel to develop, carry out and test standard accounting controls.  (12b) Provides assurance to management that Library accounting and financial management systems have proper control oversight.	(12a) Library management may not receive adequate control reports to alert them to accounting or financial control deficiencies.  (12b) Library staff may not have enough accounting control knowledge to recommend and develop needed procedures or to identify and resolve control system weaknesses.	(12a) Not implemented.  A November 1989 internal Library proposal to upgrade Acquisitions' Senior Account Clerk to Principal Account Clerk was not implemented. However, the Library may need an Accounting Technician instead.  Library has also not met the need for accounting expertise by requesting the addition of an Accountant to its staff.
<i>Documentation</i>			
(13) All Library budget, accounting and financial activity should be supported by adequate documentation.	(13a) Provides clear record of activity including all authorizations, assumptions, actual transactions, detected errors and omissions, and results.	(13a) Library management's efforts to investigate errors or omissions and take corrective action may be impeded or prevented by lack of adequate supporting documentation.	(13a) Partially implemented.  Documentation could be improved to support all INNOVACQ transactions and adjustments.  Library procedures do not specify what types of information and documents must be retained to support either routine or exceptional transactions.

As TABLE VI demonstrates, the Library has not implemented adequate controls over its financial reporting system and budget. As a result, the Library is exposed to the following risks:

- Over-encumbrance of the budgeted amounts that are the foundation of the Library's collection development plan; and
- Planning and making day-to-day operating decisions based on inaccurate and unreliable financial reports and budgets.

**Over-Encumbrance Of The Budgeted Amounts That Are The Foundation Of The Library's Collection Development Process**

It is important that the Library's INNOVACQ system produces reports that librarians can rely on to 1) check the status of specific materials or books ordered, 2) verify that payments are correctly posted against budget allocations, 3) determine available book and non-book materials acquisition funds available (allocations less expenditures and encumbrances), and 4) plan future purchases of collection materials.

However, our review revealed that the Library's INNOVACQ system Fund Activity and Accounting Reports frequently show an over-encumbrance of budgeted funds. These over-encumbrances occur for two reasons. First, Library management knows that encumbrances for material acquisitions are significantly overstated. Secondly, Library management places greater emphasis on controlling spending at the branch library level instead of at the fund code level. As a result, the Library frequently over encumbers budgeted amounts for materials acquisition that are the foundation of the Library's collection development plan.

The Library has a policy to encumber funds at list price even though the Library rarely pays list price. Instead, vendors usually give the Library large discounts off the retail list price for the books and other materials the Library orders. These discounts can exceed 40 percent. As a result, the amount of encumbered funds shown on INNOVACQ reports for ordered materials is always overstated by the amount of the discounts the vendors give the Library.

The Library's INNOVACQ system has a built-in feature that is designed to prevent overspending of budgeted funds. This built-in feature is a system generated "flag" that alerts the Library's Order Unit staff that 95 percent or more of budgeted funds have been expended or encumbered. However, because Library management knows that encumbered funds are always overstated by the amount of vendor discounts for ordered materials, Order Unit staff are allowed to routinely override INNOVACQ's "95 percent flag." In fact, the Library has an informal policy to allow expenditures and encumbrances of up to 120 percent of the unexpended budgeted amounts for materials acquisition. Thus, the Library frequently allows over-encumbrance of fund codes to compensate for the distortion caused by its policy of recording encumbrances at list prices instead of discounted prices.

Another cause of the Library's over-encumbered budget amounts is Library management's emphasis on controlling spending at the branch library level of budgetary detail instead of at the fund code level for type of library materials ordered. This budgetary level of emphasis resulted in the Library exceeding its budget for 72 of 219 (33 percent) INNOVACQ

reported fund codes in 1988-89. The Library exceeded some of these fund codes by as much as 175 percent. In addition, as of April 30, 1990, the Library had exceeded 54 of 241 (22 percent) INNOVACQ reported fund codes.

According to Library officials, it does not matter if individual fund code budgets are exceeded just so long as the total budget for each branch library is not exceeded. However, that response is not in keeping with the City Administration's written response to a February 1990, City Auditor report entitled An Audit Of The San Jose Public Library's Collection Development And Materials Acquisition Activities. Specifically, the Administration stated that:

*" ... The annual library materials allocation process ... is a collection development process. Objectives for each library public service unit are established annually and are reviewed and approved by Library Management. ... Furthermore, library materials expenditures are monitored by Library Management throughout the year. Should collection needs change during the year, the allocation is renegotiated between the Unit head and the responsible manager. ... "*

In other words, each branch library's individual fund code budgets represent a part of Library management's collection development process.

Accordingly, it is Library management's responsibility to monitor each branch library's budgetary performance at the fund code level in order to assess compliance with Library management's collection development plan. However, because Library management does not monitor spending at the fund code level, it cannot make that assessment.

In our opinion, Library management needs to stop encumbering acquisition funds at list price and start monitoring branch library spending at the individual fund code level. It should be noted that the Library can address its encumbering funds at list price problem by taking advantage of a

readily available remedy. Specifically, the Library's INNOVACQ system has an available discount feature that allows the Library to assign vendor discount percentages to vendor codes. Then, when the Library enters purchase orders into its INNOVACQ system using list prices, INNOVACQ would automatically compute and report the encumbrance amount net of the vendor discount. This INNOVACQ system discount feature is available to the Library at no additional cost.

**Planning And Making Day-To-Day  
Operating Decisions Based On Inaccurate  
And Unreliable Financial Reports**

The internal control weaknesses shown in TABLE VI have resulted in Library management relying on unreliable and inaccurate financial reports and budget information when planning and making day-to-day operating decisions. The following are instances of unreliable financial and budget information that we noted during our audit.

**Book Fund Allocations**

At the end of 1988-89, the Library's INNOVACQ system overstated its book fund allocation by \$69,547.91 and understated total book fund expenditures by \$10,499.75 when compared to the City's financial system (GAS) reports. As a result, in 1988-89, the Library issued approximately \$92,000 in book purchase orders for which it did not have funds. This situation ultimately resulted in Library staff having to repeat its 1989-90 materials budget allocation because the Library had to use part of its 1989-90 budget allocation to pay for 1988-89 materials ordered. Also, at the end of 1988-89, the Library's outstanding purchase orders exceeded

INNOVACQ's \$222,938.04 in recorded encumbrances by \$4,741.48. This discrepancy may have existed since the Library converted to its INNOVACQ system in November 1986.

As part of our audit, we also attempted to reconcile the Library's INNOVACQ system and the City's financial system (GAS) as of the end of 1988-89. In addition to the items we noted above, we also found that INNOVACQ understated non-book fund appropriations by \$9,997.66, as well as other minor differences in gift and grant fund budgets. APPENDIX B is a summary of our INNOVACQ to GAS reconciliation.

It should be noted that our review revealed that INNOVACQ's 1988-89 expenditures were understated primarily because INNOVACQ did not record \$9,289.00 in City-paid sales tax on material acquisitions. This occurred because the vendors that do business with the Library frequently do not include sales tax on their invoice or they use the wrong sales tax rate. When this happens, the Library does not require the vendor to submit an amended invoice. In addition, because it is administratively precluded from doing so, the Library does not adjust the vendor's invoice to reflect the sales taxes due. Instead, the Finance Department calculates and pays the sales tax due and, each quarter, adjusts the Library's Book and Non-book Acquisition Funds for the sales taxes actually paid. Thus, by definition INNOVACQ understates materials acquisitions by the amount of these sales taxes and is therefore out of balance with the City's financial system.

### *Reviewing Contracts With Fiscal Impacts*

The Library contracts with On-line Computer Library Center, Inc. (OCLC) for on-line catalog services. Each year the Library must decide whether to make monthly payments to OCLC or make an annual subscription prepayment. Different discount programs apply to each alternative payment method.

Library Business Office staff prepared the OCLC Subscription Prepayment Invoice for 1987-88 and 1988-89 by first completing a worksheet detailing the estimated annual usage units of various OCLC services the Library planned to use. Based upon this analysis, the Library should decide whether it is more economical to make monthly payments to OCLC or prepay the service at the beginning of the year.

Our review revealed that when the Library analyzed its payment options for OCLC, it used inaccurate financial information. Specifically, the Library assumed an estimated monthly payment to OCLC of \$9,116.25, instead of the historical monthly average of \$7,125.50. In addition, the Library opted to prepay OCLC without considering if it would be more economical to make monthly payments. As a result, the Library overpaid OCLC nearly \$37,000 during 1987-88 and 1988-89.

### Monitoring Budgetary Information

Current Library procedures do not detect and correct even gross errors in budgetary information. For example, the Library did not detect a large error in the Library's 1988-89 Personal Services budget for part-time salaries. Specifically, in 1988-89, the budget for the Biblioteca Branch Library's part-time salaries was overstated by approximately \$400,000. This budget amount apparently should have been allocated among the Library's other branches and units. As a result, at the end of 1988-89, the Biblioteca's part-time salary budget was only 15 percent used while every other branch, except one, had exceeded its part-time salary budget. In fact, some branch libraries had exceeded their part-time salary budgets by over 200 percent and the Main Library's Acquisition Unit had exceeded its part-time salary budget by 925 percent.

We also found significant errors in an internally generated ledger that the Library relies on to monitor its capital budget. Specifically, we identified that the Library's March 1990 Capital Project Monitoring Ledger incorrectly excluded \$387,300 in appropriated capital funds.

In addition to these large budgetary information errors, during our audit we also noted the following:

- In 1987-88, the Library underestimated its fines and fees revenues by \$70,950, or 20 percent. This occurred because of staff inexperience and unfamiliarity with Library operations;
- In 1988-89, the Library used \$17,000 in grant funds that were designated for materials acquisitions to pay for non-personal operating expenses. The Library had to use these grant monies for other purposes because the Library had over-spent its non-personal budget



and the City Manager's Budget Office denied a Library request to transfer excess personal service funds to non-personal funds. The Library made up for the \$17,000 in grant funds in the following year, but it did so at the expense of other 1989-90 non-personal budget items; and

- A September 1989 internally generated Budget Distribution Report was incorrectly totaled by \$12,395.

In our opinion, the Library's internal control environment reflects an overall lack of awareness on management's part regarding the importance of accounting and budgeting internal controls. In addition, we believe that Library management needs to assign a higher priority to accounting and budgeting control actions within the Department. Without a supportive management attitude ("tone at the top") for strong internal controls, the integrity of the Department's financial information will be compromised.

In response to a February 1990, City Auditor Report entitled An Audit Of The San Jose Public Library's Collection Development And Materials Acquisition Activities, the Library will update its procedures for various Acquisition Division Units. While the Library is updating its existing procedures, it also needs to develop new financial reporting and budgeting policies and procedures to:

- Report encumbrances accurately;
- Control expenditures;
- Batch process payments;
- Reconcile account activities and balances;
- Record sales taxes and other adjustments on INNOVACQ;
- Develop reliable budget estimates;
- Review contracts;
- Analyze budget trends and variances;
- Review budget figures; and

- Document all transactions and adjusting entries.

In addition, our review indicates that the Library needs to hire additional accounting personnel in order to 1) implement many of the above items, 2) increase the technical competency of its staff, and 3) provide adequate separation of duties and supervision. Our opinion regarding the need for additional accounting expertise is based upon the following.

The Library's financial control system for a \$16.1 million annual budget, \$400,000 in annual fee revenue collections, and \$1.6 million in direct annual purchases are the responsibility of:

- 1 Account Clerk II;
- 1 Senior Account Clerk;
- 1 Senior Acquisitions Librarian;
- 1 Staff Analyst I;
- 1 Staff Analyst II; and
- 1 Senior Management Analyst.

While some of the above positions have accounting type responsibilities, their position classification descriptions do not require any formal accounting education. For example, the Senior Acquisitions Librarian classification does not require a knowledge of government accounting, auditing, accounting principles or the ability to set up fiscal records and procedures. In addition, the Senior Account Clerk classification does not require any formal bookkeeping or accounting courses.

Further, the Library's accounting expertise appears to be lacking when it is compared to another City department of comparable size and complexity. Specifically, we noted the City's Recreation, Parks and Community Services Department (RPCS) has the following accounting positions the Library does not:

- 1 Principal Account Clerk;
- 1 Accounting Technician; and
- 1 Accountant II.

RPCS's Accounting Technician must have two courses in bookkeeping and the Accountant II needs 18 semester units of accounting.

The City of San Jose has an Accountant I classification. In order to meet the requirements of the Accountant I classification, a person must have completed 9 semester units of accounting. In our opinion, the Library needs to 1) request the addition of an Accountant I to the Senior Management Analyst's staff, 2) request that the Senior Account Clerk position be upgraded to Accounting Technician, and 3) reassign the upgraded Accounting Technician to function under the new Accountant I. Once in place, the responsibilities of these new and upgraded positions should include:

- Reviewing departmental accounts for propriety;
- Reconciling Department accounting reports to FMS reports and City Council approved budgets;
- Testing the adequacy and effectiveness of the Department's internal accounting controls;
- Recommending policies and procedures to improve the Department's system of accounting controls and its documentation of financial transactions;
- Batch balancing all acquisition payment transactions;
- Resolving problems or errors detected during batch balancing and/or reconciliation procedures;

- Reviewing transactions and account balances for propriety;
- Maintaining an audit trail of accounting documents, records and system reports; and
- Preparing control reports for management.

## **CONCLUSION**

Our review revealed that the Library's internal control environment reflects an overall lack of awareness on management's part regarding the importance of accounting and budgeting internal controls. As a result, the Library's financial system internal controls are either inadequate or nonexistent. In addition, we believe that Library management needs to assign a higher priority to accounting and budgeting control actions within the Department.

Specifically, we found the Library lacks adequate:

- Fund accounting and budget policies and procedures for reporting encumbrances accurately, controlling acquisition expenditures, batch processing payments, reconciling account activity and balances, recording sales tax and other adjustments on INNOVACQ, developing reliable budget estimates, reviewing contracts, analyzing budget trends and variances, and reviewing budget figures for accuracy;
- Supervision of its accounting activities;
- Separation of duties among staff for authorizing, processing, recording and reviewing transactions;
- Technically trained accounting staff; and
- Documentation of all financial transactions and adjusting entries.

By adding to and upgrading its accounting staff, making better use of its financial management system, and implementing new accounting control procedures, Library management's ability to make sound budgetary and day-to-day operating decisions will be improved.

## **RECOMMENDATIONS**

We recommend that the Library Department:

### **Recommendation #12:**

Request the addition of an Accountant I to the Senior Management Analyst's staff to:

- Review departmental accounts for propriety;
  - Reconcile Department accounting reports to FMS reports and City Council approved budgets;
  - Test the adequacy and effectiveness of the Department's internal accounting controls; and
  - Recommend policies and procedures to improve the Department's system of accounting controls and its documentation of financial transactions.
- (Priority 2)

**Recommendation #13:**

Request that the Senior Account Clerk classification in Acquisitions be upgraded to Accounting Technician and reassigned to function under the new Accountant I (Recommendation #12). The upgraded Accounting Technician should:

- Batch balance all acquisition payment transactions;
- Resolve problems or errors detected during batch balancing and/or reconciliation procedures;
- Review transactions and account balances for propriety;
- Maintain an audit trail of accounting documents, records and system reports; and
- Prepare control reports for management.  
(Priority 2)

**Recommendation #14:**

Evaluate the INNOVACQ vendor discounting option to calculate and encumber funds. (Priority 3)

**Recommendation #15:**

Develop, write and implement a policy to enforce the use of the INNOVACQ “95 percent flag” feature as an expenditure control.  
(Priority 3)

**Recommendation #16:**

Develop, write and implement a policy to request that vendors include the correct amount of sales tax on their invoices. (Priority 3)

**Recommendation #17:**

Develop, write and implement a policy to require batch processing and balancing of all payment transactions from invoice receipt through final FMS release for payment. (Priority 2)

**Recommendation #18:**

Develop, write and implement a policy to require staff, on a monthly basis, to reconcile INNOVACQ appropriation, expenditure, and cash balances to those on FMS and document the resolution of any differences between the two systems. (Priority 2)

**Recommendation #19:**

Develop, write and implement a policy to require staff, on a quarterly basis, to review all Library computer or manual system budget appropriation figures to assure 1) agreement with City Council approved budgets, 2) agreement between departmental systems, and 3) agreement between subsidiary and primary ledger budget figures. (Priority 2)

**Recommendation #20:**

Develop, write and implement a policy to require that staff adequately document amounts, descriptions, approval, authority and processing dates for all INNOVACQ transactions and adjustments. (Priority 3)

**Recommendation #21:**

Develop, write and implement a policy that 1) assigns specific responsibility for the review and approval of all operating and capital budget estimates, 2) requires comparison of actual expenditures to budget estimates, 3) requires written explanations and justifications for all significantly increased or decreased budget items, and 4) requires documentation and approval of the basis for all budget estimates. (Priority 2)

**Recommendation #22:**

Develop, write and implement a policy to require staff to routinely analyze significant trends and variances between budgeted and actual operating and capital program results. (Priority 2)



**Recommendation #23:**

Develop, write and implement a policy to require the Senior Management Analyst, on a quarterly basis, to certify to the Library's Executive Policy Group (EPG) that all Library computer and manual system ending balances are accurate. Should any of these balances not be accurate, the Senior Management Analyst should also propose to the EPG a plan and a timeline to correct them. (Priority 2)

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